

Other Postemployment Benefits

U S WEST also adopted, effective January 1, 1992, SFAS No. 112, "Employers' Accounting for Post-employment Benefits." SFAS No. 112 requires that employers accrue for the estimated costs of benefits, such as workers' compensation and disability, provided to former or inactive employees who are not eligible

for retirement. Adoption of SFAS No. 112 resulted in a one-time, non-cash charge against 1992 earnings of \$52.7, net of a deferred income tax benefit of \$32.3. No adjustment to the postemployment benefit liability was necessary at December 31, 1993.

NOTE 11: INCOME TAXES

The components of the provision for income taxes follow:

	Year Ended December 31,		
	1993	1992	1991
Federal:			
Current	\$422.5	\$427.1	\$448.8
Deferred	(145.4)	46.4	(84.8)
Investment tax credits - net	(56.1)	(63.2)	(74.9)
	221.0	410.3	289.1
State and local:			
Current	70.6	62.0	69.7
Deferred	(22.8)	21.1	10.9
	47.8	83.1	80.6
Provision for income taxes	\$268.8	\$493.4	\$369.7

The unamortized balance of investment tax credits at December 31, 1993 and 1992, was \$280.0 and \$520.8, respectively. During 1993, the unamortized balance of investment tax credits was reduced by \$185.6 in conjunction with the company's decision to discontinue accounting for the operations of U S WEST Communications in accordance with SFAS No. 71. (See Note 4 to the Consolidated Financial Statements.)

Amounts paid for income taxes were \$391.3, \$458.8, and \$484.3 in 1993, 1992 and 1991, respectively, inclusive of discontinued operations.

Effective January 1, 1993, U S WEST adopted SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 uses a balance sheet approach that generally allows consideration of expected future income in determining deferred income taxes. Prior to 1993, the company used the SFAS No. 96 approach that gave no recognition to future events other than the recovery of assets and settlement of liabilities at their carrying amounts. The cumulative effect of adopting SFAS No. 109 was not material to results of operations.

The effective tax rate differs from the statutory tax rate as follows:

In percent	Year Ended December 31,		
	1993	1992	1991
Federal statutory tax rate*	35.0	34.0	34.0
State income taxes - net of federal effect	4.0	3.5	4.3
Tax law change - catch-up adjustment	3.1	—	—
Investment tax credit amortization	(3.0)	(4.2)	(4.8)
Rate differential on reversing temporary differences	(2.2)	(3.1)	(3.2)
Restructuring charges	(1.5)	—	(1.1)
Depreciation on capitalized overheads - net	1.4	2.1	2.3
Other	(0.7)	(0.9)	(0.9)
Effective tax rate	36.1	31.4	30.6

*Federal statutory tax rate increase effective January 1, 1993.

The components of the net deferred tax liability follow:

	December 31, 1993	January 1, 1993 *
Property, plant and equipment	\$1,339.8	\$2,965.7
Leases	663.1	598.0
State deferred taxes - net of federal effect	277.3	433.9
Revenue requirement adjustment to regulatory asset	—	356.4
Other	139.5	228.5
Deferred tax liabilities	2,419.7	4,582.5
Pension, postretirement and postemployment benefits	736.0	814.1
Revenue requirement adjustment to regulatory liability	—	463.6
Restructuring, discontinued operations and other	619.4	253.4
State deferred taxes - net of federal effect	219.9	161.0
Unamortized investment tax credit	94.4	178.2
Other	259.8	178.2
Deferred tax assets	1,929.5	2,048.5
Net deferred tax liability	\$ 490.2	\$2,534.0

* SFAS No. 109 was adopted January 1, 1993. The net deferred tax liability at January 1, 1993 is shown for comparative purposes.

The current portion of the deferred tax asset is \$335.5 resulting primarily from restructuring charges and compensation-related items.

Prior to the discontinuance of SFAS No. 71, U S WEST Communications recorded additional deferred taxes and established a corresponding regulatory asset, primarily related to the cumulative amount of tax benefits previously flowed through to ratepayers. In addition, U S WEST Communications recorded a regulatory liability coincidental with the reduction of the deferred tax reserves from higher historical to lower current tax rates. The regulatory asset and liability were grossed up, in accordance with SFAS No. 96, for the tax effect of future revenue

requirements. In connection with the discontinuance of SFAS No. 71, the remaining balance of the regulatory asset and liability, and the related deferred tax asset and liability, were written off. (See Note 4 to the Consolidated Financial Statements.)

On August 10, 1993, federal legislation was enacted that increased the corporate tax rate from 34 percent to 35 percent retroactive to January 1, 1993. The cumulative effect on deferred taxes of the 1993 increase in income tax rates was \$74, including \$20 for discontinued operations.

The net deferred tax liability includes \$606.9 (including an asset of \$73.9) in 1993 and \$662.5 in 1992 related to discontinued operations.

NOTE 12: CONTINGENCIES

At U S WEST Communications, there are pending regulatory actions in local regulatory jurisdictions that call for rate reductions, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The

commission's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. If the commission finds that either of the exceptions apply, the company could be liable for refunds, although at this time any such amount is not reasonably estimable since the case is still in the discovery process.

NOTE 13: DISCONTINUED OPERATIONS

During second quarter 1993, the U S WEST Board of Directors approved a plan to dispose of the Capital Assets segment through the sale of segment assets and businesses. Accordingly, the company recorded an after-tax charge of \$100, or \$.24 per share, related to the disposition. An additional charge of \$20, or \$.04 per share, is related to the effect of the increase in federal income tax rates, as described in Note 11 to the Consolidated Financial Statements. The Capital Assets segment includes activities related to financial services and the financial guarantee insurance operations. Also included in the segment is U S WEST Real Estate Inc., for which disposition was announced in 1991 and a \$500 valuation allowance was established to cover both carrying costs and losses on disposal of related properties. The entire Capital Assets segment has been accounted for as discontinued operations in accordance with Accounting Principles Board Opinion No. 30. Prior periods presented have been reclassified to reflect the effects of discontinued operations.

Sales and other revenues of discontinued operations were \$709.7 in 1993, \$672.0 in 1992 and \$1,097.4 in 1991. Income (loss) from discontinued operations for

1993 (to June 1), 1992 and 1991 totaled \$38.5, \$103.6 and (\$286.2), respectively. Income (loss) from discontinued operations subsequent to June 1, 1993, is being deferred and was included in the provision for loss on disposal.

The assets and liabilities of the Capital Assets segment have been separately classified on the Consolidated Balance Sheets as net assets of discontinued operations.

In December 1993, the company sold \$2.0 billion of finance receivables and the business of U S WEST Financial Services to NationsBank Corporation. Sales proceeds of \$2.1 billion were used primarily to repay related debt and for reinvestment in communications businesses. The pretax gain on the sale of approximately \$100, net of selling expenses, was in line with management's estimate and was included in the company's estimate of provision for loss on disposal.

During 1993, U S WEST Real Estate Inc. sold five properties for proceeds of approximately \$60. In January 1994, two properties were sold for approximately \$230. The company anticipates disposing of the remainder of its real estate portfolio during the next several years.

Net Assets of Discontinued Operations

	December 31,	
	1993	1992
Assets		
Cash and cash equivalents	\$ 24.0	\$ 45.4
Finance receivables - net	1,131.0	3,056.6
Bonds, 1993 at market value, 1992 at amortized cost	894.4	999.8
Investment in real estate - net of valuation allowance	710.8	720.9
Other assets	600.4	792.3
Total assets	\$3,360.6	\$5,615.0
Liabilities		
Debt	\$1,495.8	\$3,433.1
Deferred income taxes	680.8	662.5
Unearned premiums	345.7	297.1
Accounts payable and accrued liabilities	243.5	282.2
Minority interests	40.3	54.2
Total liabilities	2,806.1	4,729.1
Net assets of discontinued operations	\$ 554.5	\$ 885.9

Finance receivables primarily consist of investments in leveraged leases related to aircraft and power plants. For leveraged leases, the cost of the assets leased is financed primarily through non-recourse debt which is netted against the related lease receivable.

The components of finance receivables follow:

	December 31,	
	1993	1992
Receivables	\$1,208.3	\$3,239.4
Unguaranteed estimated residual values	477.4	493.4
	1,685.7	3,732.8
Less: Unearned income	490.4	527.1
Credit loss and other allowances	64.3	149.1
Finance receivables - net	\$1,131.0	\$3,056.6

In December 1993, the company adopted SFAS No. 115, "Accounting for Investments in Debt and Equity Securities." Accordingly, investments in debt securities, which are designated as available for sale, are carried at market value. Any resulting unrealized gains or losses, net of applicable deferred income taxes, are reflected as a component of shareowners' equity. The change in net unrealized gains and losses of \$35.1, net of deferred taxes of \$18.9, is included in the net assets of discontinued operations at December 31, 1993.

The amortized cost and estimated market value of investments in debt securities follow:

	December 31, 1993				December 31, 1992			
	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Debt Securities								
Municipal	\$742.3	\$50.5	\$(0.9)	\$791.9	\$579.5	\$19.7	\$(1.5)	\$597.7
Corporate	—	—	—	—	233.2	8.7	(4.9)	237.0
Other	98.1	4.5	(0.1)	102.5	187.1	7.2	(1.3)	193.0
Total	\$840.4	\$55.0	\$(1.0)	\$894.4	\$999.8	\$35.6	\$(7.7)	\$1,027.7

Debt

Interest rates and maturities of debt associated with discontinued operations at December 31 follow:

Interest rates	Maturities						Total	Total
	1994	1995	1996	1997	1998	Thereafter	1993	1992
Up to 5%	\$276.3	\$150.0	\$50.0	\$ 10.0	\$ —	\$ 10.0	\$ 496.3	\$ 705.7
Above 5% to 6%	—	5.0	—	—	—	—	5.0	5.0
Above 6% to 7%	—	—	—	54.3	—	—	54.3	54.1
Above 7% to 8%	8.5	7.0	5.3	5.0	—	—	25.8	316.5
Above 8% to 9%	72.0	—	37.6	—	—	154.0	263.6	385.7
Above 9% to 10%	38.5	60.9	—	47.5	5.0	25.0	176.9	321.2
Above 10%	—	—	—	—	29.2	—	29.2	128.3
Commercial paper rates	29.7	—	—	—	—	—	29.7	676.7
	\$425.0	\$222.9	\$92.9	\$116.8	\$34.2	\$189.0	\$1,080.8	\$2,593.2
Allocated from continuing operations - net							415.0	839.9
Total							\$1,495.8	\$3,433.1

Debt of \$123.7 at December 31, 1993 and 1992 was collateralized by first deeds of trust on associated real estate, assignment of rents from leases, and operating and management agreements.

Financial Instruments With Off-Balance Sheet Credit Risk - Financial Guarantees

The principal amounts insured on asset-backed and municipal obligations follow:

Term to Maturity	Asset-backed (1) December 31,		Municipal (2) December 31,	
	1993	1992	1993	1992
0 to 5 Years	\$ 5,955	\$ 5,872	\$ 1,888	\$1,186
5 to 10 Years	2,050	1,719	2,771	1,614
10 to 15 Years	1,286	1,629	2,176	1,321
15 to 20 Years	593	276	2,346	1,536
20 and Above	2,501	2,372	4,606	3,838
Total	\$12,385	\$11,868	\$13,787	\$9,495

(1) Excludes amounts ceded to other insurers of \$6,210 and \$4,781, in 1993 and 1992, respectively, and includes \$25 of assumed obligations in 1993 and 1992.

(2) Excludes amounts ceded to other insurers of \$5,576 and \$3,946, in 1993 and 1992, and includes \$1,218 and \$1,478 of assumed obligations in 1993 and 1992, respectively.

The principal amount of insured obligations in the municipal portfolio, net of amounts ceded, include the following types of issues:

Type of Issue	December 31,	
	1993	1992
General obligation	\$ 3,487	\$2,439
Tax-backed revenue	2,919	1,744
Housing revenue	1,879	1,354
Municipal utility revenue	1,783	1,182
Health care revenue	1,399	925
Transportation revenue	710	547
Other	1,610	1,304
Total	\$13,787	\$9,495

Concentrations of collateral associated with insured asset-backed obligations, net of amounts ceded, follow:

Type of Collateral	December 31,	
	1993	1992
Residential mortgages	\$ 3,874	\$ 3,765
Consumer receivable	1,443	1,015
Securities:		
Government debt	2,039	2,320
Non-government securities	1,709	1,794
Commercial mortgages:		
Commercial real estate	809	871
Corporate secured	1,018	1,072
Investor-owned utility first mortgage bonds	772	693
Other asset-backed	721	338
Total	\$12,385	\$11,868

Additional Financial Information

Information for U S WEST Financial Services Inc., a member of the discontinued segment, follows:

Summarized Operating Results	Year Ended December 31,		
	1993	1992	1991
Revenues	\$409.9	\$302.0	\$333.8
Income (loss) before parent support and income taxes	*	83.3	(2.5)
Income (loss) before parent support	*	55.1	(1.6)
Net income	*	55.1	52.2

*Results of Financial Services are included in discontinued operations.

Summarized Financial Position	December 31,	
	1993	1992
Net finance receivables	\$1,019.8	\$3,176.5
Total assets	1,783.9	3,423.7
Total debt	957.1	2,324.6
Total liabilities	1,734.9	3,054.7
Shareowner's equity	49.0	369.0

For the year ended December 31, 1991, Financial Services' operating results reflect a pretax charge of approximately \$50 due to the write-off of intangible assets.

NOTE 14: QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data, and per share market and dividend data, follow:

Quarterly Financial Data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1993				
Sales and other revenues	\$ 2,509.9	\$2,541.5	\$ 2,576.2	\$2,666.0
Income (loss) from continuing operations before income taxes	449.1	436.0	(534.5)	394.1
Income (loss) from continuing operations	295.7	291.2	(375.1)	264.1
Net income (loss)	316.1	159.1	(3,545.1)	264.1
Earnings (loss) per share from continuing operations	0.71	0.70	(0.90)	0.62
Earnings (loss) per share	0.76	0.38	(8.50)	0.62
1992				
Sales and other revenues	\$ 2,410.1	\$2,444.3	\$ 2,449.2	\$2,519.0
Income from continuing operations before income taxes	439.6	405.6	354.7	369.3
Income from continuing operations	295.6	275.0	243.3	261.9
Net income (loss)	(1,476.1)	292.3	266.2	303.6
Earnings per share from continuing operations	0.72	0.67	0.59	0.63
Earnings (loss) per share	(3.58)	0.71	0.65	0.73

1993 second quarter net income was reduced by \$100 (\$.24 per share) for a charge related to discontinued operations and \$50.2 (\$.12 per share) for the early extinguishment of debt. 1993 third quarter net loss includes a restructuring charge of \$610 (\$1.46 per share) and \$74 (\$.18 per share), including \$20 (\$.05 per share) related to discontinued operations, for the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates. 1993 third quarter net loss also includes extraordinary charges of \$3,123 (\$7.49 per share) for the discontinuance of SFAS No. 71, and \$27 (\$.06 per share) for the early extinguishment of debt.

1993 net income (loss) related to discontinued operations was \$20.4 (\$.05 per share) and (\$81.9) (\$.20 per share) for the first and second quarters, respectively. Income (loss) subsequent to June 1, 1993 is being deferred and was included within the provision for loss on disposal of the Capital Assets segment.

1992 first quarter net income was reduced by \$1,793.4 (\$4.35 per share) due to the adoption of SFAS Nos. 106 and 112.

1992 net income related to discontinued operations was \$21.7 (\$.05 per share), \$17.3 (\$.04 per share), \$22.9 (\$.06 per share) and \$41.7 (\$.10 per share), for the first, second, third and fourth quarters, respectively.

Per Share Market and Dividend Data (whole dollars)	Market Price			
	High	Low	Close	Dividends
1993				
First	\$43.875	\$37.750	\$43.625	\$0.535
Second	46.000	40.625	45.875	0.535
Third	49.375	44.500	49.250	0.535
Fourth	50.750	45.750	45.875	0.535
1992				
First	\$38.875	\$33.375	\$34.125	\$ 0.53
Second	36.875	32.875	36.500	0.53
Third	40.000	36.250	38.000	0.53
Fourth	40.000	35.250	38.375	0.53

U S WEST BOARD OF DIRECTORS



Dick Cheney (53)

A former secretary of Defense in the Bush administration, he is a senior fellow with the American Enterprise Institute in Washington, D.C. The former five-term congressman from Wyoming also served as chief of staff for President Ford. Mr. Cheney joined the U S WEST board in 1993.



Remedios Diaz-Oliver (55)

The president and chief executive officer of All American Container Inc., which sells and distributes glass, plastic and metal containers for a variety of products worldwide. Ms. Diaz-Oliver joined the U S WEST board in 1988.



Grant A. Dove (65)

The managing partner of Technology Strategies and Alliances, a strategic planning and investment banking firm. He spent nearly 30 years in a number of executive positions with Texas Instruments. He joined the U S WEST board in 1988 and chairs the Human Resources Committee.



Mary M. Gates (64)

A regent of the University of Washington since 1975, Ms. Gates served as a director of Pacific Northwest Bell from 1979 to 1988 and as a director of U S WEST's cellular communications company, U S WEST NewVector Group, from 1990 to 1991. She joined the U S WEST board in 1992.



Allan D. Gilmour (59)

Vice chairman of the Ford Motor Co., Mr. Gilmour has had a number of executive assignments since joining Ford in 1960. He served as the company's chief financial officer before taking over leadership of its international automotive operations and, later, the Ford Automotive Group. He joined the U S WEST board in 1992.



Pierson M. Grieve (66)

The chairman and chief executive officer of Ecolab Inc., a leading worldwide developer and marketer of premium cleaning, sanitizing and maintenance products and services for the hospitality, institutional and residential markets. He joined the U S WEST board in 1990, and chairs the Board Affairs Committee.



Shirley M. Hufstедler (68)

A partner in the law firm of Hufstедler, Kaus & Ettinger. She served as the secretary of Education during the Carter administration and, for 11 years, as a judge for the 9th U.S. Circuit Court of Appeals. Ms. Hufstедler joined the U S WEST board in 1983, and chairs the Public Policy Committee.



Allen F. Jacobson (67)

The former chairman and chief executive officer of 3M. He has been a member of the U S WEST board since 1983 and is chairman of the Corporate Development and Finance Committee.



Richard D. McCormick (53)

Named president and chief executive officer of U S WEST effective January 1, 1991 and chairman of the board May 1, 1992. Mr. McCormick was president of Northwestern Bell Telephone Company before joining U S WEST as executive vice president in 1985. He became a member of the company's board in 1986.



Marilyn Carlson Nelson (54)

The vice chair of Carlson Holdings Inc., a group of companies involved in marketing services, travel and hospitality services. Ms. Nelson is also chair of Citizens State Bank of Waterville Minn. and Montgomery, Minn. She joined the U S WEST board in 1993.



Frank Popoff (58)

The chairman and chief executive officer of The Dow Chemical Company. Since joining Dow Chemical in 1959, he also served as the company's president and chief operating officer and executive vice president for international operations. Mr. Popoff joined the U S WEST board in 1993.



Glen L. Ryland (69)

The president of RYCO Inc. He is former chairman, president and chief executive officer of Frontier Holdings Inc., and its principal subsidiary, Frontier Airlines. He joined the U S WEST board in 1983 and is chairman of the Audit Committee.



Jerry O. Williams (55)

President of Grand Eagle Enterprises, a private investment group. He is former president and chief operating officer of AM International Inc., a manufacturer and seller of design, display, reproduction and finishing products and supplies in the graphics industry. He joined the U S WEST board in 1988.



Daniel Yankelovich (69)

The founder and chairman of DYG Inc., a leading market research firm. He also founded Yankelovich, Skelly and White, one of the nation's largest opinion research organizations. He joined U S WEST's board in 1983 and is chairman of the Trust Investment Committee.

Board Retirement

Jack D. Sparks (71)

Having reached the mandatory retirement age of 70, board member Jack D. Sparks retired May 7, 1993, at the company's annual meeting of shareholders in Minneapolis. The former chairman, chief executive officer and president of Whirlpool Corporation, he was elected to the U S WEST board in 1985.

U S WEST EXECUTIVE AND SUBSIDIARY OFFICERS

Richard D. McCormick*
Chairman, President and
Chief Executive Officer

A. Gary Ames*
President and Chief Executive Officer
U S WEST Communications Group

Richard J. Callahan*
Executive Vice President, U S WEST and
President, U S WEST International and
Business Development Group

Charles M. Lillis*
Executive Vice President and
Chief Planning Officer

James M. Osterhoff*
Executive Vice President and
Chief Financial Officer

Charles P. Russ III*
Executive Vice President,
General Counsel and Secretary

James H. Stever*
Executive Vice President, Public Policy

J. Thomas Bouchard*
Senior Vice President and
Chief Human Resources Officer

James T. Anderson*
Vice President and Treasurer

Lorne G. Rubis*
Vice President, Quality

Judith A. Servoss*
Vice President, Public Relations

H. Laird Walker
Vice President, Federal Relations

John DeFeo
President and Chief Executive Officer
U S WEST NewVector Group

Thomas E. Pardun
President and Chief Executive Officer
U S WEST Multimedia Group

Solomon D. Trujillo
President and Chief Executive Officer
U S WEST Marketing Resources Group

Pearré Williams
President
Corporate Development Division

* Executive officer

SHAREOWNER INFORMATION

U S WEST Shareowner Services

If you have questions about your U S WEST account or need to make changes, please write:

**For general information,
transfers, the U S WEST
Fact Book or the company's
current Form 10-K Report:**
U S WEST
P.O. Box 8935
Boston, MA 02266-8935

For dividend reinvestment:
U S WEST
P.O. Box 8936
Boston, MA 02266-8936

Shareowner Toll-Free Number

1-800-537-0222

Shareowners calling from Alaska, Hawaii or outside the United States, please call collect: 0-505-989-2004.

Shareowner Investment Plan

Shareowners can reinvest their dividends and make optional payments for a fee of \$1.00 per account, per quarter. Contact U S WEST Shareowner Services for enrollment information.

Expected Dividend Record Dates

April 20, 1994
July 20, 1994
October 20, 1994
January 20, 1995

Expected Dividend Payment Dates

May 2, 1994
August 1, 1994
November 1, 1994
February 1, 1995

Annual Meeting

The annual meeting of shareowners will be held at 10 a.m. Friday, May 6, 1994, at the Peter Kiewit Conference Center, 1313 Farnam, Omaha, NE 68182. A signer will be at the meeting to assist the hearing impaired.

Stock Exchange Listings

U S WEST common stock is listed on the New York, Pacific, London, Zurich, Basel, Geneva, Amsterdam and Tokyo stock exchanges. Its ticker symbol is "USW" and it is listed in newspaper stock tables under "U S WEST."

Street-Name Accounts

Shareowners holding stock in street-name accounts who wish to receive U S WEST quarterly reports may contact U S WEST Shareowner Services to be placed on the mailing list.

Corporate Headquarters

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USWEST

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ENGLEWOOD, CO 80155-6508

ATTACHMENT 10

U S WEST

Making
the
RIGHT
Connections

ANNUAL REPORT
1994

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Shareowner Information

CORPORATE PROFILE: U S WEST Inc. is in the connections business, helping customers share communications, entertainment and information services in local markets worldwide. U S WEST is headquartered in Englewood, Colo., a suburb of Denver.

The company's major subsidiary, U S WEST Communications, provides services to more than 25 million residential and business customers in 14 western and midwestern states. U S WEST Communications was created from three former Bell telephone companies: Mountain Bell, Northwestern Bell and Pacific Northwest Bell.

CORPORATE MISSION: U S WEST's mission is to be a leading provider of integrated communications, entertainment and information services over wired broadband and wireless networks in selected local markets worldwide.

CORPORATE VISION: By the year 2000, U S WEST will be the finest company in the world at connecting people with their world.

Financial Highlights

Dollars in millions (except per share amounts)

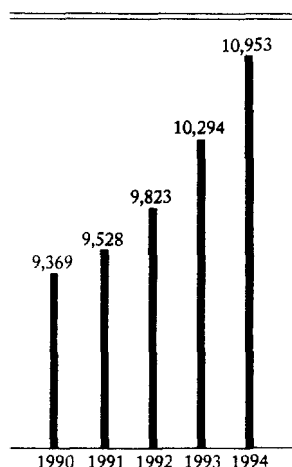
	1994	1993	1992	1991	1990
Financial Data					
Sales and other revenues	\$ 10,953	\$ 10,294	\$ 9,823	\$ 9,528	\$ 9,369
Income from continuing operations (Note 1)	1,426	476	1,076	840	1,145
Net income (loss)	1,426	(2,806)	(614)	553	1,199
Total assets	\$ 23,204	\$ 20,680	\$ 23,461	\$ 23,375	\$ 22,160
Total debt (Note 2)	7,938	7,199	5,430	5,969	5,147
Shareowners' equity	7,382	5,861	8,268	9,587	9,240
Earnings per common share (continuing operations) (Note 1)	\$ 3.14	\$ 1.13	\$ 2.61	\$ 2.09	\$ 2.97
Earnings (loss) per common share	3.14	(6.69)	(1.49)	1.38	3.11
Dividends per common share	2.14	2.14	2.12	2.08	2.00
Book value per common share	15.73	13.29	19.95	23.39	23.48
Return on common shareowners' equity (Note 3)	21.6%	—	14.4%	5.7%	13.7%
Debt-to-capital ratio (Note 2)	51.8%	55.1%	39.6%	38.4%	35.8%
Capital expenditures (Note 2)	\$ 2,820	\$ 2,441	\$ 2,554	\$ 2,425	\$ 2,217
Other Selected Data (Wholly Owned Domestic Operations)					
Telephone network access lines in service (thousands)	14,336	13,843	13,345	12,935	12,562
Billed access minutes of use (millions)	52,275	48,123	44,369	41,701	38,832
Cellular subscribers	968,000	601,000	415,000	300,000	219,000
Cable television basic subscribers served	486,000	—	—	—	—
Employees	61,505	60,778	63,707	65,829	65,469
Number of common shareowners	816,099	836,328	867,773	899,082	935,530
Weighted average common shares outstanding (thousands)	453,316	419,365	412,518	401,332	386,012

Note 1 - 1994 income from continuing operations includes a gain of \$105 (\$.23 per share) on the sale of 24.4 percent of U S WEST's joint venture interest in cable television/telephone operations in the United Kingdom (TeleWest Communications plc), a gain of \$41 (\$.09 per share) on the sale of the company's paging unit and a gain of \$51 (\$.11 per share) on the sale of certain rural telephone exchanges. 1993 income from continuing operations was reduced by a restructuring charge of \$610 (\$1.46 per share) and \$54 (\$.13 per share) for the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates. 1991 income from continuing operations was reduced by a restructuring charge of \$230 (\$.57 per share).

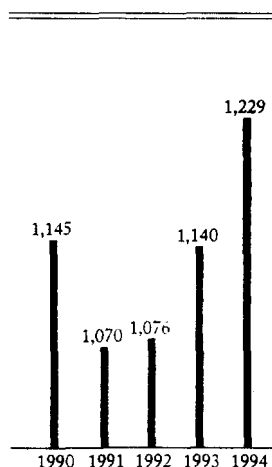
Note 2 - Capital expenditures, debt and the debt-to-capital ratio exclude discontinued operations.

Note 3 - 1993 return on shareowners' equity is not presented. Return on shareowners' equity for fourth quarter 1993 was 19.9 percent based on income from continuing operations. 1992 return on shareowners' equity is based on income before the cumulative effect of change in accounting principles.

Revenues
(Dollars in Millions)



Normalized Income from Continuing Operations
(Dollars in Millions)

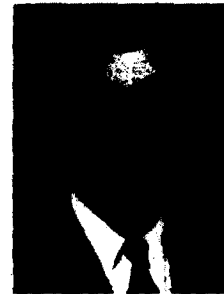


Excludes one-time items described in Note 1 above.

An exciting year of

MAKING THE *RIGHT* CONNECTIONS

*Chairman and Chief Executive Officer
Richard D. McCormick looks back on the
highlights and challenges of 1994,
and ahead to a larger, more exciting role for the
company in "connecting people
with their world."*



W

hen you think of peoples' need to talk to each other...to exchange business information...to shop...to choose entertainment...and to learn...*you're thinking about the exciting new world of telecommunications we're creating at U S WEST.*

It's a world as familiar as a telephone call; as novel as a video store inside your remote control. And U S WEST is "making the right connections" to bring that world to our customers.

1994 was a year of solid growth and earnings in our basic businesses: local telephone service and telephone directories. We also made great strides in revitalizing those businesses – *and building new businesses* – for the future.

I'm especially excited about those new opportunities – such as customer-controlled video services and "personal" wireless phone service – that we'll bring to millions more customers than we serve today.

My only disappointments last year were in two areas.

First: Our stock performance. Rising interest rates and other concerns caused investors to focus more on short-term earnings than long-term opportunities. As a result, the price of U S WEST shares declined.

Second: Temporary delays in installing new phone lines. In a period of extraordinary growth, these delays caused customer dissatisfaction in some areas. To address the problems, we temporarily slowed the streamlining of our customer-service operations. (We've fixed most service problems and are back on track with our service-improvement program.)

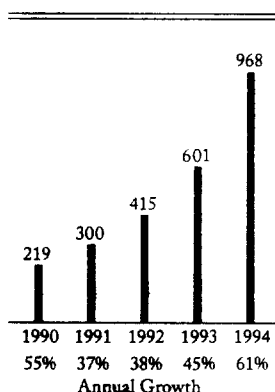
Strong '94 results

Despite those concerns, I feel very good about 1994. We set out to increase sales, sustain healthy profits in our basic businesses and

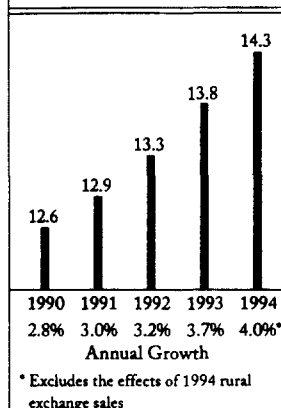
boost the earning-power of our new businesses. And we did:

- At U S WEST Communications, which provides local telephone services in 14 western and midwestern states, we were second among the regional Bell companies in growth – increasing lines by 4.0 percent over 1993. Minutes of use, reflecting the volume of traffic we carry for long-distance companies, were up 8.6 percent. Earnings grew 9.9 percent (excluding one-time items). Earnings before interest, taxes, depreciation and amortization (EBITDA) were up 7.4 percent (excluding one-time items).
- U S WEST Direct, which publishes 300 telephone directories, increased sales 6.5 percent, almost double the industry average. Earnings climbed 4.0 percent.
- U S WEST Cellular, which provides wireless telephone services in 50 markets, added an unprecedented 367,000 customers, a 61-percent increase.

U S WEST Cellular Subscribers (In thousands)



U S WEST Communications Access Lines (In millions)



• Our TeleWest partnership, the largest provider of combined cable-television and telephone service in the United Kingdom, reported growth rates of 42 percent and 94 percent in those businesses, respectively. Underscoring this company's value: In a recent stock offering, U S WEST's \$300 million net investment in TeleWest was valued by the market at \$1.1 billion.

• Our wireless communications businesses in Europe served more than 367,000 customers – nearly three times more than in the previous year. The leader was our Mercury One-2-One partnership in the U.K., which provided the new “personal communications service” to 205,000 customers. We reached this number in slightly more than a year by emphasizing convenience and low price per call, proving that wireless communication is indeed a mass-market service.

Revenues, earnings up

- Companywide, total revenues for the year were \$10.95 billion, up 6.4 percent.
- We achieved a 7.8-percent increase in

total-company EBITDA.

- 1994 net income was \$1.229 billion, a 7.8-percent increase from 1993 (after both years were adjusted for one-time items). But earnings per share remained about the same as in 1993, because net income was spread over 34 million additional shares of stock we issued largely to fund major long-term investments.

- We continued to pay a healthy dividend: \$2.14 per share.

So, we have the *strength* to carry us into the future. We also have a *strategy* we believe will assure our success in this dramatically changing world of telecommunications.

In previous reports, I've told you that our business is being transformed by two technologies: digital communications (the language of computers and CD players), and high-capacity networks. They will change not only the ways we carry information, but – more important – *the services we can deliver to our customers*.

The world at your fingertips

Today, customers press a few digits to reach another person. Tomorrow, they'll still do that – but they may be pressing a remote control and seeing the other person on a TV screen.

Or selecting the movie or TV show they want, whenever they want it. Or connecting with the store of their choice to see the item they want – and ordering it. Or calling the bank to look at their balance.

The possibilities are tremendous – both in the variety of services and their potential to save people time, money and hassle. The key to success is making these new services as *easy to use* as our Voice Messaging and Caller ID.

To deliver these services, we'll need networks that are capable of two-way, or interactive, video, as well as voice and data communications. So will our competitors.

Cable-TV companies have networks that excel in carrying the same *one-way* video signals to everyone. Telephone companies are best at connecting specific locations for *two-way* messages.

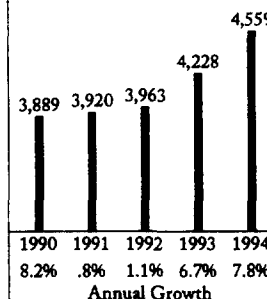
Both industries face a dilemma: either they upgrade their networks and seize these opportunities, or sit back and become victims of change.

US WEST has chosen to *benefit* from change – on two fronts. We're upgrading our network in our 14-state service territory. And we've invested in cable-TV networks outside our region.

The point: to increase volume – and value – by carrying more messages, more *kinds* of messages, to more customers, in more markets. And that's what we're doing.

EBITDA*

(Dollars in millions)



* Earnings before interest, taxes, depreciation and amortization. Excludes equity losses, other income and one-time items.

*Building tomorrow's
networks today*

U S WEST Communications was the first telephone company to announce plans to build and operate multimedia networks in its region.

Begun in 1994, this mammoth project will continue past the year 2000.

The first of these networks, in Omaha, is almost finished, and we've begun technical trials. This year, we'll learn, firsthand, how customers prefer to use the services these networks make possible.

Looking ahead, we've announced plans for similar networks in Denver and Colorado Springs; Minneapolis-St. Paul; Salt Lake City; Boise, Idaho; Portland, Ore.; Albuquerque, N.M.; Des Moines and Cedar Rapids, Iowa.

And we're not stopping at the borders of our home territory. We're investing to reach new customers *outside* our region. In Atlanta — one of the top U. S. markets — we acquired two major cable-TV systems that serve nearly a half-million customers.

Meanwhile, our partner Time Warner has added to its cable holdings. Including those recently announced acquisitions, U S WEST and Time Warner will serve customers in 37 of the nation's top 50 markets.

Combined, the in- and out-of-region networks will make U S WEST a leading provider of exciting new multimedia services. In an early demonstration to reporters in Orlando, Fla., the consensus reaction was most positive.

Doing it right

But will customers use these services? If they're easy to use, the answer is "yes." So we're working with partners and developing our own user-friendly menus and new on-screen services, such as our "GOtv" entertainment guide and our "U S Avenue" shopping service.

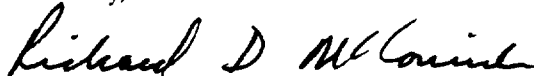
Beyond these "wired" network opportunities, U S WEST established two strategic alliances to capture a larger share of the nation's "wireless" markets. First, we reached an agreement to combine our domestic cellular telephone business with that of AirTouch Communications. Second, the two companies agreed to join with Bell Atlantic and NYNEX to seek licenses for, and operate, personal communications networks in several major U.S. markets.

Connecting the world

1994 was the foundation for our future. We're building on that foundation to make the most of the tremendous opportunities in meeting peoples' needs for communications, entertainment and information.

Our goal is simple: *making the right connections* for our customers, our employees and our shareowners. And that's what we're doing.

Sincerely,



Richard D. McCormick

Chairman and Chief Executive Officer

*"The point:
to increase volume —
and value — by
carrying more
messages, more kinds of
messages, to
more customers, in
more markets.
And that's what
we're doing."*

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Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions, except per share amounts)

RESULTS OF OPERATIONS - 1994 COMPARED WITH 1993

	1994 (1)	1993 (2)	Increase
Income from continuing operations	\$ 1,426	\$ 476	\$ 950
Loss from discontinued operations	-	(82)	82
Extraordinary items:			
Discontinuance of SFAS No. 71, net of tax	-	(3,123)	3,123
Early extinguishment of debt, net of tax	-	(77)	77
Net income (loss)	\$ 1,426	\$(2,806)	\$ 4,232
Earnings per common share from continuing operations	\$ 3.14	\$ 1.13	\$ 2.01
Loss per common share from discontinued operations	-	(.19)	.19
Extraordinary items:			
Discontinuance of SFAS No. 71	-	(7.45)	7.45
Early extinguishment of debt	-	(.18)	.18
Income (loss) per common share	\$ 3.14	\$ (6.69)	\$ 9.83

(1) 1994 income from continuing operations includes a gain of \$105, or \$.23 per share, from the sale of 24.4 percent of U S WEST's joint venture interest in cable television/telephone operations in the United Kingdom (TeleWest Communications plc), a gain of \$41, or \$.09 per share, on the sale of the company's paging operations and a gain of \$51, or \$.11 per share, on the sale of certain rural telephone exchanges.

(2) 1993 income from continuing operations was reduced by \$610, or \$1.46 per share, for a restructuring charge and \$54, or \$.13 per share, for the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates.

In 1994, U S WEST Inc. ("U S WEST" or "company") income from continuing operations and related earnings per common share ("earnings per share") were \$1,426 and \$3.14, respectively. Included in 1994 results are one-time, after-tax gains described in note (1) to the table above. Excluding these gains, income from continuing operations and related earnings per share were \$1,229 and \$2.71, respectively. In 1993, income from continuing operations was \$476, or \$1.13 per share, including the effects of one-time charges described in note (2) to the table above. Excluding the one-time effects, 1993 income from continuing operations and related earnings per share were \$1,140 and \$2.72, respectively. As normalized for one-time effects, 1994 income from continuing operations increased \$89, or 7.8 percent, and related earnings per share decreased \$.01 on an 8.1 percent increase in average shares outstanding. The increase in normalized income from continuing operations is primarily attributable to increased demand for telecommunications and domestic wireless services, partially offset by increased start-up losses associated with developing businesses.

In 1993, U S WEST discontinued the operations of its Capital Assets segment. Also in 1993, the company incurred extraordinary charges for the discontinuance of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," and the early extinguishment of debt. See further discussion in "Results of Operations - 1993 Compared with 1992," starting on page 26.

Revenue growth, partially offset by higher operating expenses, provided a 7.8 percent increase in the company's earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA also excludes equity losses in unconsolidated ventures, gains on sales of assets, restructuring charges and other income. The company considers EBITDA an important indicator of the operational strength of its businesses.

Income from Continuing Operations – Base and Developing Businesses

	Percent Ownership	1994 (1)	1993 (2)	Increase (Decrease)
Base businesses:				
U S WEST Communications Inc.	100	\$ 1,175	\$ 435	\$ 740
Publishing and other	100	232	180	52
Total base		1,407	615	792
Developing businesses:				
Consolidated:				
Domestic wireless	100	67	(46)	113
Domestic cable	100	(2)	–	(2)
Unconsolidated equity investments:				
Time Warner Entertainment L.P. (3)	25.5	(30)	(19)	(11)
TeleWest Communications plc	37.8	76	(21)	97
Mercury One-2-One	50.0	(58)	(22)	(36)
Other (4)		(34)	(31)	(3)
Total developing		19	(139)	158
Income from continuing operations		\$ 1,426	\$ 476	\$ 950

(1) 1994 income from continuing operations includes a gain of \$105 from the sale of 24.4 percent of U S WEST's joint venture interest in TeleWest Communications plc, a gain of \$41 for the sale of the company's paging operations and a gain of \$51 for the sale of certain rural telephone exchanges.

(2) 1993 income from continuing operations was reduced by \$610 for a restructuring charge and \$54 for the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates.

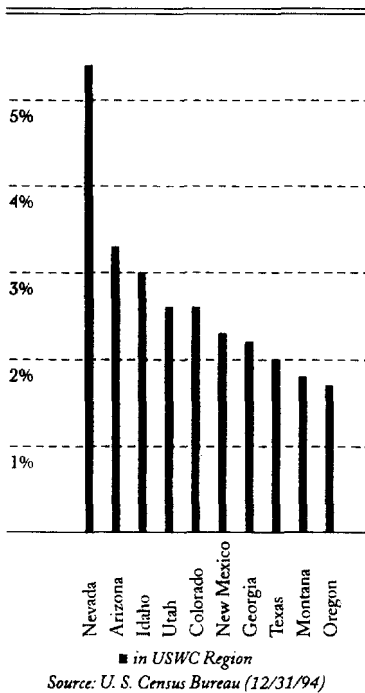
(3) Percent ownership represents pro-rata priority capital and residual equity interests.

(4) Includes divisional expenses associated with developing businesses.

U S WEST's operations consist of "base" businesses that have moderate, though consistent, growth and generate substantial income and cash flows, and "developing" businesses. Most of the company's developing businesses are in a stage of rapid customer and network expansion, which will result in near-term earnings dilution.

Base Businesses The major component of U S WEST's base businesses is USWEST Communications Inc. ("USWC"), which provides telecommunications services in 14 western and mid-western states, serving approximately 80 percent of the region's population and approximately 40 percent of its geographic area. USWC offers local, exchange access and long-distance network services. About 28 percent of the company's access lines are devoted

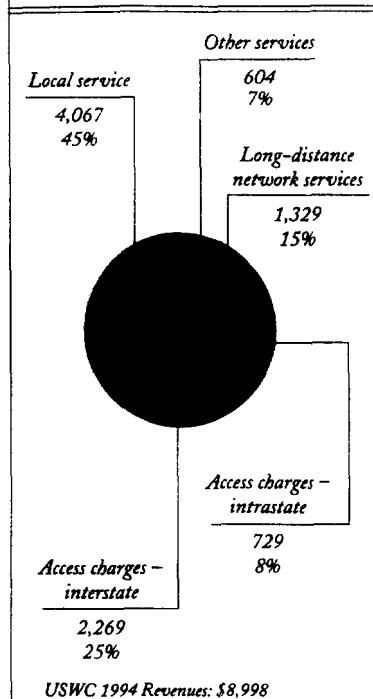
*USWC Serves Seven of the
Ten Fastest-growing States
1994 Percentage Population Growth*



to providing services to business customers. The access line growth rate for business customers, who tend to be heavier users of the telephone network, has consistently exceeded the growth rate for residential customers. During 1994, business access lines grew by 4.6 percent compared with 3.1 percent for consumer lines. Total access line growth in 1994 was 3.6 percent. Excluding the effects of the sale of certain rural telephone exchanges, total access lines grew by 4.0 percent in 1994.

The majority of USWC's revenues are derived from traditional telephone services. USWC will incur future capital and operating expenditures for deployment of a broadband or "multimedia" network. The company expects this network to generate new revenues through a variety of new product and service offerings. However, the amount and timing of future revenues related to multimedia service offerings are difficult to predict. The company believes the multimedia network also will improve the quality of customer service and result in greater network efficiency and lower maintenance costs.

*Summary of USWC 1994 Revenues
(Dollars in millions)*



Base businesses also include the publishing of approximately 300 White and Yellow Pages directories in the western United States and the provision of database marketing and interactive multimedia information services.

During 1994, income from the company's base operations increased to \$1,356, excluding the gain on the sale of certain rural telephone exchanges. This represents a 1994 increase of \$119, or 9.6 percent, also excluding the effects of the 1993 restructuring charge and the cumulative effect in 1993 of higher income tax rates. As normalized, the increase is attributable to higher demand for telephone services, including the effects of strong growth in access lines, and increased publishing revenue, partially offset by lower telephone rates and higher costs for developing new products in the publishing operations.

Funding of new products and other growth initiatives in publishing and other marketing services operations offset growth in core Yellow Pages operations. Income related to Yellow Pages operations continues to grow due to increased business volume and higher prices. The company anticipates that accelerated investments in new products and services in 1995 will more than offset expected income growth related to the Yellow Pages business.

Developing Businesses Developing businesses include both domestic and international wholly owned subsidiaries and equity investments. Domestic businesses include cable television and wireless operations. International businesses include cable television/telephone, wireless communications (including personal communications services), international networks and directory publishing. Significant recent investments include the December 1994 purchase of Wometco Cable Corp. and subsidiaries and the assets of Georgia Cable Holdings (the "Atlanta Cable Properties") for \$1.2 billion, and the September 1993 \$2.5 billion investment in Time Warner Entertainment Company L.P. ("TWE"). While the company's Central European wireless ventures generate positive net income and cash flow, most of the company's international equity investments are in start-up phases and will not show positive net income or cash flow until they mature.

Developing Businesses - Consolidated Domestic wireless income increased by \$30 over 1993, excluding the gain on the sale of the company's paging operations and a \$42 restructuring charge in 1993. The increase is due to the addition of 367,000 subscribers in 1994, a 61 percent increase over 1993. Additionally, cellular service operating cash flow increased by \$57, or 46.1 percent, over 1993. U S WEST anticipates continued growth in income and cash flows from domestic wireless operations as the customer base expands.

The December 1994 acquisition of the Atlanta Cable Properties did not have a material impact on 1994 income. The company anticipates that the acquisition will dilute 1995 earnings per share by approximately 5 to 6 percent.

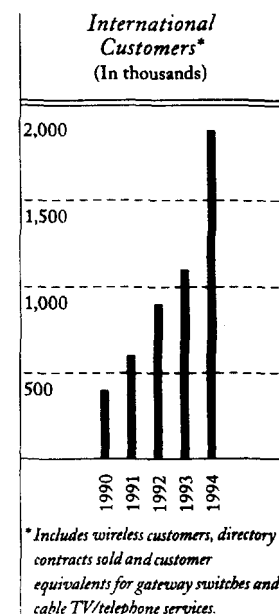
Developing Businesses - Unconsolidated Equity Investments The majority of U S WEST's international equity investments relate to ventures in the United Kingdom ("U.K."). These include TeleWest Communications plc ("TeleWest"), a cable television/telephone business, and Mercury One-2-One, a personal communications service ("PCS") joint venture. These businesses are experiencing rapid growth, and will continue to incur near-term start-up losses related to expansion of the customer base at Mercury One-2-One and build out of the network at TeleWest.

Cable television subscribers of TeleWest and its affiliates increased 42 percent to 320,000 at year-end 1994, and telephone access lines increased 94 percent to 271,000.

Subscribers to U S WEST's international wireless joint venture operations in the U.K., Hungary, the Czech Republic, Slovakia and Russia grew to 367,000 in 1994, nearly three times the customer base of the prior year. Subscribers to other European cable television ventures totaled 586,000 at December 31, 1994.

TWE partnership losses increased over the previous year primarily due to the full-year impact (including financing costs) of the company's investment, as compared with three months in 1993. The effects of lower prices for cable services also contributed to the higher loss in 1994.

In early 1995, Time Warner Inc. announced its intention to simplify its corporate structure by establishing a separate, self-financing enterprise to house its cable and telecommunications properties. Any change in the structure of TWE would require the approval of U S WEST and its TWE partners.



Sales and Other Revenues

	1994	1993	Increase (Decrease)	
			\$	%
Base businesses:				
USWC operations:				
Local service	\$ 4,067	\$ 3,829	\$ 238	6.2
Access charges - interstate	2,269	2,147	122	5.7
Access charges - intrastate	729	682	47	6.9
Long-distance network service	1,329	1,442	(113)	(7.8)
Other services	604	556	48	8.6
Total USWC	8,998	8,656	342	4.0
Publishing and other	1,077	1,070	7	0.7
Total base	10,075	9,726	349	3.6
Developing businesses: (1)				
Domestic wireless	781	561	220	39.2
International directories	79	7	72	-
Domestic cable	18	-	18	-
Total developing	878	568	310	54.6
Total revenues	\$10,953	\$10,294	\$659	6.4

(1) Includes consolidated subsidiaries. All other developing businesses are accounted for using the equity method.

Base Businesses USWC comprises approximately 89 percent of base businesses revenues and 82 percent of the total revenues of US WEST. Approximately 58 percent of USWC's revenues are derived in the states of Arizona, Colorado, Minnesota and Washington. The primary factors that influence changes in revenues at USWC are customer demand for products and services (through access line growth and new service offerings), and regulatory proceedings, including price changes and customer refunds. An analysis of the change in USWC's revenues follows:

Local Service

Price Changes	Refund Activity	Demand	Other	Increase	
				\$	%
(\$12)	\$30	\$216	\$4	\$238	6.2

Local service revenues include local telephone exchange, local private line and public telephone services. The increase in local service revenues was primarily attributable to access line growth, which exceeded 5 percent in the states of Arizona, Colorado, Idaho and Utah.

Access Charges Access charges are collected primarily from the interexchange carriers for their use of the local exchange network. For interstate access services, there is also a fee collected directly from telephone customers. Approximately 35 percent of USWC's access revenues and 13 percent of its total revenues are derived from providing access service to AT&T.

Interstate Access Charges

Price Changes	Refund Activity	Demand	Other	Increase	
				\$	%
(\$39)	\$18	\$148	(\$5)	\$122	5.7

An increase of 7.8 percent in interstate billed access minutes of use more than offset the effects of price decreases. Interstate price reductions have been phased in by the Federal Communications Commission ("FCC") over a number of years. In response to competitive pressure and FCC orders, USWC reduced its annual interstate access prices by approximately \$40 during 1994, in addition to \$60, effective July 1, 1993. The company believes access prices will continue to decline, whether mandated by the FCC or as a result of an increasingly competitive market for access services.

Intrastate Access Charges

Price Changes	Refund Activity	Demand	Other	Increase	
				\$	%
(\$10)	(\$4)	\$51	\$10	\$47	6.9

Intrastate access charges increased primarily as a result of higher demand. Intrastate minutes of use grew by 13 percent in 1994. Demand for private line services, for which revenues are generally not usage-sensitive, also increased.

Long-Distance Network Service

Price Changes	Refund Activity	Demand	Other	Decrease	
				\$	%
(\$8)	\$1	(\$43)	(\$63)	(\$113)	(7.8)

Long-distance network service ("long-distance") revenues are derived from calls made within the service area boundaries of USWC, commonly referred to as "LATAs." Long-distance revenues decreased principally due to the effects of multiple toll carrier plans implemented in Oregon and Washington in May and July 1994, respectively. These regulatory arrangements allow independent telephone companies to act as toll carriers. The impact on USWC in 1994 was a loss of \$68 in long-distance revenue, partially offset by a decrease of \$48 in other operating expenses (i.e. access expense otherwise paid to independent companies) and an increase of \$10 in intrastate access revenue. These regulatory arrangements decreased net income by approximately \$6 in 1994 and will decrease 1995 income by \$10 to \$12.

Competition from interexchange carriers continues to erode USWC's market share of intraLATA long-distance services such as WATS and "800." These revenues have declined over the last several years as customers have migrated to interexchange carriers that have the ability to offer these services on both an intraLATA and interLATA basis. U S WEST and its affiliates are prohibited from providing interLATA long-distance services.

Other Services Other services revenues are derived from billing and collection services provided to interexchange carriers, and new services such as voice messaging. Other services revenues increased 8.6 percent in 1994 due to higher revenue from these billing and collection services and continued market penetration of new service offerings. Voice messaging, for example, is now four years old with an installed customer base of approximately 885,000, compared with 690,000 in 1993.

Publishing and Other

	1994	1993	Increase (Decrease)	
			\$	%
Domestic publishing	\$ 997	\$ 949	\$ 48	5.1
Other - net	80	121	(41)	(33.9)
Total	\$ 1,077	\$ 1,070	\$ 7	0.7

Revenue from domestic publishing operations increased 7.4 percent in 1994, excluding the sales of certain publishing, and software development and marketing operations. The increase is attributable to both price and volume increases. Other revenues decreased principally due to the 1993 sale of telephone equipment distribution operations and completion of large telephone network installation contracts.

Developing Businesses - Consolidated**Domestic Wireless**

	1994	1993	Increase	
			\$	%
Domestic wireless	\$781	\$561	\$220	39.2

Domestic wireless revenues increased as a result of the 61 percent growth in the cellular customer base, partially offset by the effects of the 1994 sale of the paging operations that reduced revenues by \$26. The customer growth reflects increased penetration and a strengthening of the retail distribution network. The cellular customer base is expected to continue its rapid growth, though rates of growth will be affected by consumer demand, market positioning by the company and increased competition in coming years. Average cellular revenues declined by approximately 8 percent during 1994 to approximately \$70 per subscriber, per month.

Other Developing Businesses

	1994	1993	Increase	
			\$	%
International directories	\$79	\$ 7	\$72	-
Domestic cable	18	-	18	-

The increase in international directories revenue is attributable to the company's May 1994 purchase of Thomson Directories in the U.K. Thomson Directories revenues are expected to approximate \$100 in 1995. Domestic cable revenues reflect the December 1994 acquisition of the Atlanta Cable Properties. These revenues are expected to exceed \$200 in 1995.

Costs and Expenses

	1994	1993	Increase (Decrease)	
			\$	%
Employee-related expenses	\$ 3,779	\$ 3,584	\$ 195	5.4
Other operating expenses	2,203	2,065	138	6.7
Taxes other than income taxes	412	417	(5)	(1.2)
Depreciation and amortization	2,052	1,955	97	5.0
Restructuring charge	-	1,000	(1,000)	-
Interest expense	442	439	3	0.7
Equity losses in unconsolidated ventures	121	74	47	63.5
Other income (expense) - net	25	(15)	40	-

Employee-related expenses include basic salaries and wages, overtime, contract labor, benefits (including pension and health care) and payroll taxes. A reduction in the pension credit of approximately \$80 contributed to the increase in employee-related expenses. Actuarial assumptions, which include decreases in the discount rate and the expected long-term rate of return on plan assets, contributed to the pension credit reduction. Approximately \$150 for overtime payments, contract labor and basic salaries and wages, all related to the implementation of major customer service and streamlining initiatives at USWC, also contributed to the increase. Additionally, employee-related expenses at the company's publishing operations increased in connection with new product initiatives. Partially offsetting these increases were the effects of employees leaving the company under the restructuring program, lower health-care benefit costs, including a reduction in the accrual for postretirement benefits, and lower incentive compensation payments to employees.

During the summer of 1994, increased customer demand at USWC put additional stress on current processes and systems, and affected the quality of customer service in certain markets. The pace of USWC's restructuring program also contributed to quality of service issues. However, the issues pertaining to quality of service underscore the need to re-engineer the business. The company achieved target levels of service at year end by implementing customer service initiatives and slowing the pace of its restructuring program. To continue improving upon the level of service quality achieved by year-end 1994, the company will incur additional near-term costs for temporary employees, overtime and contract labor. The company also will stretch out its 1993 restructuring plan an additional year, to 1997. As a result of these actions, the annual benefits related to restructuring will not be fully realized until 1998. (See "Restructuring Charges.")

Other operating expenses include access charges (incurred by USWC for the routing of its long-distance traffic through the facilities of independent companies), network software expenses, wireless marketing and operating costs, and marketing and related costs associated with publishing activities. Selling and other operating costs related to growth in the cellular subscriber base increased approximately \$166 in 1994. Partially offsetting this increase was the \$48 decrease in access expense related to the effects of the new multiple toll carrier plan arrangements. (See "Long-Distance Network Service.")

The increase in depreciation and amortization expense was primarily a result of a higher depreciable asset base and increased rates of depreciation at USWC. The company's discontinuance of SFAS No. 71 in September 1993 has resulted in the use of shorter asset lives (for financial reporting purposes) to more closely reflect the economic lives of telephone plant. USWC continues to pursue improved capital recovery within the regulated environment.

Interest expense in 1994 was essentially unchanged from 1993. Incremental financing costs associated with the September 1993 TWE investment were offset by the effects of refinancing debt at lower rates in 1993 at USWC, and a reclassification of capitalized interest in 1994. Since the discontinuance of SFAS No. 71, interest capitalized as a component of telephone plant construction is recorded as an offset to interest expense, rather than to other income (expense). U S WEST's average borrowing cost decreased to 6.6 percent, from 6.7 percent in 1993.

Equity losses related to developing businesses increased over 1993, primarily due to the build out of the network and the expansion of the customer base at Mercury One-2-One.

Other income increased over 1993 primarily due to an increase in the management fee associated with the company's TWE investment and a gain on the sale of certain publishing operations, partially offset by the reclassification of capitalized interest to interest expense.